New Accounting Standards

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, and interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is required to be adopted by the Company in the year beginning April 1, 2007. The adoption of FIN 48 is not expected to have a material impact on the results of operations and the financial condition of the Company.

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a market-based framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company in the year beginning April 1, 2008. The Company is evaluating the impact that the adoption of SFAS 157 will have on the results of operations and the financial condition of the Company.

In September 2006, FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"). SFAS 158 requires the recognition of the funded status of defined benefit pension and other postretirement plans in the balance sheet and the recognition in other comprehensive income (loss) of actuarial gains or losses, prior service costs or credits, and transition assets or obligations. These requirements of SFAS 158 were effective for the fiscal years ending after December 15, 2006 and were adopted by the Company in the year ending March 31, 2007. The incremental effects of adopting SFAS 158 on the accompanying consolidated financial statements at March 31, 2007 and for the year then ended are disclosed in Note 10 "Pension and Severance Plans".

In addition, SFAS 158 requires plan assets and benefit obligations to be measured as of the date of the fiscal year-end. This requirement of SFAS 158 is effective for fiscal years ending after December 15, 2008 and is not expected to have a material impact on the results of operations and the financial condition of the Company as the Company already uses a measurement date of March 31 for the majority of its plans.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company in the year beginning April 1, 2008. The Company is evaluating the impact that the adoption of SFAS 159 will have on the results of operations and the financial condition of the Company.

3. U.S. Dollar Amounts

Solely for the convenience of the reader and as a matter of arithmetical computation only, the 2007 amounts in the consolidated financial statements have been translated from Japanese yen into U.S. dollars at the rate of ¥118 = U.S.$1.00, the exchange rate prevailing on March 31, 2007. The translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at this or any other rate.

4. Investments in Debt and Equity Securities

The cost, gross unrealized gains, gross unrealized losses and estimated fair value of the available-for-sale securities by major security type at March 31, 2007 and 2006 are summarized as follows:

	2007			
	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(Millions of yen)			
Marketable securities:				
Government debt securities	¥ 22,330	¥ 3	¥ 36	¥ 22,297
Corporate debt securities	26,269	1	31	26,239
	¥ 48,599	¥ 4	¥ 67	¥ 48,536
Investment securities:				
Government debt securities	¥ 50,115	¥ 118	¥ 86	¥ 50,147
Corporate debt securities	87,485	150	529	87,106
Equity securities	107,869	82,829	627	190,071
	¥245,469	¥83,097	¥1,242	¥327,324

	2006			
	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(Millions of yen)			
Marketable securities:				
Government debt securities	¥ 20,042	¥ 2	¥ 9	¥ 20,035
Corporate debt securities	49,771	73	50	49,794
	¥ 69,813	¥ 75	¥ 59	¥ 69,829
Investment securities:				
Government debt securities	¥ 37,713	¥ 6	¥ 276	¥ 37,443
Corporate debt securities	58,253	98	1,309	57,042
Equity securities	83,502	95,355	397	178,460
	¥179,468	¥95,459	¥1,982	¥272,945

	2007			
	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(Thousands of U.S. dollars)			
Marketable securities:				
Government debt securities	$ 189,237	$ 26	$ 305	$ 188,958
Corporate debt securities	222,619	8	263	222,364
	$ 411,856	$ 34	$ 568	$ 411,322
Investment securities:				
Government debt securities	$ 424,703	$ 1,000	$ 728	$ 424,975
Corporate debt securities	741,398	1,271	4,483	738,186
Equity securities	914,144	701,941	5,314	1,610,771
	$2,080,245	$704,212	$10,525	$2,773,932

Gross realized losses of available-for-sale securities and proceeds from and gross realized gains on sales of available-for-sale securities for each of the three years in the period ended March 31, 2007 were insignificant.

Net unrealized holding gains on available-for-sale securities, net of the related taxes, decreased by ¥6,888 million ($58,373 thousand) and increased by ¥27,311 million and ¥2,948 million for the years ended March 31, 2007, 2006 and 2005, respectively.

The cost and estimated fair value of debt securities at March 31, 2007, by contractual maturity, are shown below. The actual maturities may differ from the contractual maturities because the issuers of the debt securities may have the right to prepay the obligations without penalties.

	Cost	Estimated fair value	Cost	Estimated fair value
	(Millions of yen)		(Thousands of U.S. dollars)	
Due in one year or less	¥ 48,599	¥ 48,536	$ 411,856	$ 411,322
Due after one year through five years	130,434	130,121	1,105,372	1,102,720
Due after five years through ten years	1,130	1,141	9,576	9,670
Due after ten years	6,036	5,991	51,153	50,771
	¥186,199	¥185,789	$1,577,957	$1,574,483

At March 31, 2007, estimated fair value and gross unrealized losses of the available-for-sale securities with unrealized losses, aggregated by the period of time for which individual investment securities have been in a continuous unrealized loss position are summarized as follows. At March 31, 2006, substantially all of the available-for-sale securities with unrealized losses had been in a continuous unrealized loss position for less than 12 months.

	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
	(Millions of yen)					
Government debt securities	¥ —	¥ —	¥34,922	¥122	¥ 34,922	¥ 122
Corporate debt securities	39,231	79	48,077	481	87,308	560
Equity securities	12,238	439	12,786	188	25,024	627
Total	¥51,469	¥518	¥95,785	¥791	¥147,254	¥1,309

	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
	(Thousands of U.S. dollars)					
Government debt securities	$ —	$ —	$295,949	$1,033	$ 295,949	$ 1,033
Corporate debt securities	332,466	670	407,432	4,076	739,898	4,746
Equity securities	103,712	3,720	108,356	1,594	212,068	5,314
Total	$436,178	$4,390	$811,737	$6,703	$1,247,915	$11,093

The aggregate cost of non-marketable equity securities accounted for under the cost method totaled ¥9,562 million ($81,034 thousand) and ¥37,207 million at March 31, 2007 and 2006, respectively. Investments with an aggregate cost of ¥9,546 million ($80,898 thousand) at March 31, 2007 were not evaluated for impairment because (a) the Company did not estimate the fair value of those investments as it was not practicable to estimate the fair value of the investment and (b) the Company did not identify any events or changes in circumstances that might have had a significant adverse effect on the fair value of those investments.

5. Finance Receivables

Finance receivables are recorded on sales-type leases of the Company's printing and copying machines. The current portion of finance receivables and amounts due after one year are included in notes and accounts receivable – trade and finance and long-term finance and other receivables, respectively. These receivables generally mature over one to seven years. The components of finance receivables as of March 31, 2007 and 2006 are as follows:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Gross receivables	**¥128,392**	¥103,591	**$1,088,067**
Unearned income	**(20,139)**	(16,314)	**(170,669)**
Allowance for doubtful receivables	**(3,627)**	(2,544)	**(30,737)**
Finance receivables, net	**¥104,626**	¥ 84,733	**$ 886,661**

The future minimum lease payments to be received under sales-type leases as of March 31, 2007 are summarized as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Year ending March 31;		
2008	¥ 49,137	$ 416,415
2009	32,337	274,042
2010	24,814	210,288
2011	15,906	134,797
2012	5,914	50,119
2013 and thereafter	284	2,407
Total future minimum lease payments	¥128,392	$1,088,068

6. Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Finished goods	**¥246,074**	¥234,725	**$2,085,373**
Work in process	**62,045**	66,737	**525,805**
Raw materials and supplies	**85,475**	84,001	**724,364**
	¥393,594	¥385,463	**$3,335,542**

7. Investments in Affiliated Companies

Investments in affiliated companies accounted for by the equity method amounted to ¥41,164 million ($348,847 thousand) and ¥50,347 million at March 31, 2007 and 2006, respectively. These affiliates primarily operate in the Imaging Solutions, Information Solutions and Document Solutions businesses. The combined financial position and results of operations of the Company's affiliates accounted for by the equity method are summarized as follows:

	March 31		
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Current assets	**¥109,948**	¥120,707	**$ 931,762**
Noncurrent assets	**54,962**	59,455	**465,780**
Total assets	**¥164,910**	¥180,162	**$1,397,542**
Current liabilities	**¥ 60,344**	¥ 75,747	**$ 511,390**
Long-term liabilities	**22,084**	21,724	**187,152**
Shareholders' equity	**82,482**	82,691	**699,000**
Total liabilities and shareholders' equity	**¥164,910**	¥180,162	**$1,397,542**

	Year ended March 31			
	2007	2006	2005	2007
		(Millions of yen)		(Thousands of U.S. dollars)
Revenue	**¥243,229**	¥275,295	¥252,345	**$2,061,263**
Net income	**7,496**	8,020	3,008	**63,525**

Transactions with affiliated companies for the years ended March 31, 2007, 2006 and 2005 are summarized as follows:

	2007	2006	2005	2007
		(Millions of yen)		(Thousands of U.S. dollars)
Revenue	**¥99,668**	¥105,397	¥96,047	**$844,644**
Purchases	**16,379**	40,636	43,568	**138,805**
Dividends received	**1,371**	1,311	2,115	**11,619**

Customers' guarantee deposits received from affiliated companies amounted to ¥1,293 million ($10,958 thousand) and ¥765 million at March 31, 2007 and 2006, respectively.

8. Goodwill and Other Intangible Assets

The changes in goodwill by operating segment for the years ended March 31, 2007 and 2006 were as follows:

	Imaging Solutions	Information Solutions	Document Solutions	Total
		(Millions of Yen)		
As of March 31, 2005	¥9,658	¥25,862	¥192,255	¥227,775
Acquired	—	14,664	—	14,664
Impaired	(9,834)	—	—	(9,834)
Translation and other	176	766	—	942
As of March 31, 2006	—	41,292	192,255	233,547
Acquired	—	**20,852**	**3,278**	**24,130**
Impaired	—	—	—	—
Translation and other	—	**189**	—	**189**
As of March 31, 2007	**¥ —**	**¥62,333**	**¥195,533**	**¥257,866**

	Imaging Solutions	Information Solutions	Document Solutions	Total
		(Thousands of U.S. dollars)		
As of March 31, 2006	$ —	$349,932	$1,629,280	$1,979,212
Acquired	—	**176,712**	**27,779**	**204,491**
Impaired	—	—	—	—
Translation and other	—	**1,602**	—	**1,602**
As of March 31, 2007	**$ —**	**$528,246**	**$1,657,059**	**$2,185,305**

Based on the impairment test of goodwill for the year ended March 31, 2006, the Company recognized an impairment charge of ¥9,834 million for goodwill in the Imaging Solutions segment. This mainly resulted from the revised earnings forecast of future operations for the segment reflecting the recent severe business environment. The fair value of the reporting unit was determined based on the estimated discounted future net cash flows.

Intangible assets subject to amortization at March 31, 2007 and 2006 are as follows:

	2007		2006		2007	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
	(Millions of yen)				(Thousands of U.S. dollars)	
Technology-based	**¥49,963**	**¥24,546**	¥ 41,824	¥19,425	**$423,415**	**$208,017**
Customer-related	**28,312**	**6,136**	24,329	5,136	**239,932**	**52,000**
Product supply agreements	**—**	**—**	51,593	49,410	**—**	**—**
Other	**17,459**	**5,655**	15,422	7,797	**147,958**	**47,924**
	¥95,734	**¥36,337**	¥133,168	¥81,768	**$811,305**	**$307,941**

The difference between the above amounts disclosed and the amounts of other intangible assets on the balance sheet at March 31, 2006 include intangible assets of ¥1,367 million, associated with the Company's defined benefit pension plans which were recorded in accordance with SFAS No. 87, "Employers' Accounting for Pensions."

During the years ended March 31, 2007 and 2006, the Company recognized impairment charges of ¥4,664 million ($39,525 thousand) and ¥2,850 million, respectively, in amortizable intangibles, which are included in "Restructuring and other charges" in the accompanying consolidated statements of income. See Note 18. "Restructuring and Other Charges."

The weighted-average amortization period for technology-based intangibles and customer-related intangibles is 9 years. The aggregate amortization expense for intangible assets for the years ended March 31, 2007, 2006 and 2005 were ¥14,166 million ($120,051 thousand), ¥17,244 million, and ¥10,939 million, respectively.

The estimated aggregate amortization expense for intangible assets subject to amortization for the next five years is as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Year ending March 31;		
2008	¥ 10,410	$88,220
2009	9,968	84,475
2010	7,083	60,025
2011	6,292	53,322
2012	5,625	47,669

9. Short-term and Long-term Debt

Short-term debt at March 31, 2007 and 2006 consisted of the following:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Borrowings from banks	**¥ 48,806**	¥38,217	**$413,610**
Commercial paper	**45,670**	32,000	**387,034**
Current portion of long-term debt	**11,567**	28,871	**98,025**
	¥106,043	¥99,088	**$898,669**

The weighted-average interest rates per annum on bank borrowings and commercial paper outstanding at March 31, 2007 and 2006 were 2.59% and 2.44%, respectively. Short-term debt is principally unsecured.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks and insurance companies, due 2007 to 2011 with interest rates ranging from 0.905% to 6.71% at March 31, 2007 and due 2006 to 2011, with interest rates ranging from 0.545% to 7.5% at March 31, 2006:			
Secured	**¥ 3,365**	¥ 6,094	**$ 28,517**
Unsecured	**37,567**	49,313	**318,364**
Unsecured Euroyen convertible bonds:			
Libor minus 0.3000% Series A Convertible Bond, due 2011	**50,290**	—	**426,186**
0.5000% Series B Convertible Bond, due 2011	**50,520**	—	**428,136**
Libor minus 0.3000% Series A Convertible Bond, due 2013	**50,264**	—	**425,966**
0.7500% Series B Convertible Bond, due 2013	**50,400**	—	**427,119**
Unsecured bonds in Japanese yen:			
0.6200% yen bonds, due 2006	**—**	3,000	**—**
0.6475% yen bonds, due 2006	**—**	7,500	**—**
1.6300% yen bonds, due 2007	**5,000**	5,000	**42,373**
1.0075% yen bonds, due 2008	**6,100**	6,100	**51,695**
1.0050% yen bonds, due 2008	**2,000**	2,000	**16,949**
1.9900% yen bonds, due 2010	**10,000**	10,000	**84,746**
1.5175% yen bonds, due 2011	**3,000**	3,000	**25,424**
Yen bonds due 2010 to 2011 with interest rates ranging from 0.98% to 1.43% at March 31, 2007 and Yen bonds due 2006 to 2011 with interest rates ranging from 0.98% to 1.43% at March 31, 2006	**850**	1,350	**7,203**
Other	**10,176**	9,843	**86,237**
	279,532	103,200	**2,368,915**
Portion due within one year	**(11,567)**	(28,871)	**(98,025)**
	¥267,965	¥ 74,329	**$2,270,890**

The weighted-average interest rates of long-term loans in the above table were approximately 1.67% and 1.57% at March 31, 2007 and 2006, respectively.

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Year ending March 31;		
2008	¥ 11,567	$ 98,025
2009	28,250	239,407
2010	2,527	21,415
2011	111,884	948,170
2012	21,957	186,076
2013 and thereafter	103,347	875,822
	¥279,532	$2,368,915

Certain bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness may be provided upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank. Certain of the long-term debt agreements with lenders other than banks also stipulate that the Company must provide additional security upon request of the lender.

At March 31, 2007, certain loans were secured by marketable and investment securities with a net book value of ¥1,245 million ($10,551 thousand).

On April 5, 2006, the Company issued unsecured Euroyen convertible bonds totaling ¥200,000 million ($1,694,916 thousand) in a private placement. The bonds consist of ¥50,000 million ($423,729 thousand) of series A Euroyen convertible bonds due March 31, 2011 with variable interest rates ("2011 Series A convertible bond"), ¥50,000 million ($423,729 thousand) of series B Euroyen convertible bonds due March 31, 2011 with fixed interest rates ("2011 Series B convertible bond"), ¥50,000 million ($423,729 thousand) of series A Euroyen convertible bonds due March 31, 2013 with variable interest rates ("2013 Series A convertible bond") and ¥50,000 million ($423,729 thousand) of series B Euroyen convertible bonds due March 31, 2013 with fixed interest rates ("2013 Series B convertible bond").

The period, during which the conversion rights are exercisable, is from April 5, 2006 to March 28, 2011 for 2011 Series A convertible bond and 2011 Series B convertible bond. The period, during which the conversion rights are exercisable, is from April 5, 2006 to March 28, 2013 for 2013 Series A convertible bond and 2013 Series B convertible bond.

The price to be paid upon exercise of conversion rights per share ("conversion price") for 2011 Series A convertible bond and 2011 Series B convertible bond is ¥5,278 ($44.73). The conversion price for 2013 Series A convertible bond and 2013 Series B convertible bond is ¥4,901 ($41.53), respectively, both of which are subject to reset as follows:

The conversion price shall be subject to reset on each of March 31, 2009 and March 31, 2010 in case of 2011 Series A convertible bond and 2011 Series B convertible bond, or September 30, 2008, September 30, 2009, September 30, 2010, September 30, 2011 and September 30, 2012 (each a "Reset Date") in case of 2013 Series A convertible bond and 2013 Series B convertible bond to 90% of the average last reported selling price of common shares of the Company on the Tokyo Stock Exchange on a trading day ("Closing Price") for the ten consecutive trading days up to and including the relevant Reset Date. In case the calculated reset price would be below ¥3,770, that is Closing Price on March 7, 2006 ("Minimum Conversion Price"), the reset conversion price shall be the Minimum Conversion Price.

The Company may redeem bonds at its option earlier than the stated maturity dates if the Closing Price for each of five consecutive trading days, the last of which occurs not more than 10 business days prior to the date upon which the notice of such redemption is first published, exceeds 115% of the applicable conversion price in effect on each such trading day. In order to redeem the bonds, the Company has to give not less than 30 nor more than 60 days' prior notice to the bondholders.

10. Pension and Severance Plans

Employees of domestic subsidiaries of the Company who terminate their employment are entitled, under most circumstances, to lump-sum payments and/or pension payments as described below, determined by reference to their current basic rate of pay, length of service and the conditions under which termination occurs.

Certain domestic subsidiaries have funded non-contributory defined benefit pension plans whose assets are maintained at trust banks and insurance companies and also have defined contribution plans. The funding policy for defined benefit plans is to make actuarially determined contributions to provide the plans with sufficient assets to meet future benefit payment requirements.

During the year ended March 31, 2007, as a result of implementation of restructuring activities, settlements and curtailments occurred related to the defined benefit pension plans of certain subsidiaries of the Company. In connection with these settlements and curtailments, the Company recognized losses of ¥5,146 million ($43,610 thousand), which are included in restructuring and other charges. Also, the projected benefit obligations and the fair value of the plan assets decreased by ¥10,506 million ($89,034 thousand) and ¥10,405 million ($88,178 thousand), respectively. In addition, plan amendments were made for certain other subsidiaries, mainly in the Document Solutions segment, which decreased the projected benefit obligations by ¥2,788 million ($23,627 thousand).

During the year ended March 31, 2006, certain domestic subsidiaries combined their defined benefit pension plans with their other defined benefit plans and merged into the Company's existing defined benefit plan and defined contribution plan. Under this restructuring of pension and severance plans, the projected benefit obligation decreased by ¥10,916 million, attributable to benefit payments, and increased by ¥237 million for the plan amendment, which was treated as unrecognized prior service cost. In addition, plan amendments were made for certain other subsidiaries, which increased projected benefit obligations by ¥199 million.

Certain of its domestic subsidiaries in the Document Solutions segment had a defined benefit pension plan, which had been funded in conformity with the requirements of the Welfare Pension Insurance Law of Japan. The pension plan consisted of two portions: a governmental welfare contributory portion (which would otherwise be provided by the Japanese government) and an additional non-contributory defined benefit portion. In January 2004, the subsidiaries obtained the final approval from the Japanese government to be relieved of all past benefit obligations related to the governmental welfare component, or substitutional portion, of the plans and completed the transfer of the plan assets equivalent to the substitutional portion to the government in August 2004.

In accordance with the consensus on EITF Issue No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," for the year ended March 31, 2005, the Company recognized a settlement loss of ¥76,401 million and also recognized a reduction in net periodic pension cost related to derecognition of previously accrued salary progression of ¥29,014 million, both of which are included in selling, general and administrative expenses. In addition, the Company recognized a subsidy from the government of ¥83,129 million representing the difference between the obligation settled and the assets transferred to the government.

Most foreign subsidiaries have various retirement plans, primarily defined contribution plans, covering substantially all of their employees. The funding policy for such defined contribution plans is to contribute annually an amount equal to a certain percentage of the participant's annual salary.

The aggregate cost charged to income for the Company's domestic and foreign defined contribution plans discussed above amounted to ¥7,297 million ($61,839 thousand), ¥7,036 million, and ¥5,938 million for the years ended March 31, 2007, 2006 and 2005, respectively.

The Company uses a measurement date of March 31 for the majority of its plans.

On March 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS 158. SFAS 158 required the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the benefit obligations) of its defined benefit pension plans in the March 31, 2007 consolidated balance sheet with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. The adjustment to accumulated other comprehensive income (loss) at adoption represents the net actuarial loss, prior service credit, and net transition obligation, all of which were previously netted against the plans' funded status in the consolidated balance sheet pursuant to the provisions of SFAS 87.

The incremental effects of adopting SFAS 158 on the accompanying consolidated balance sheet at March 31, 2007 are summarized as follows. The adoption of SFAS 158 had no effect on the accompanying consolidated statement of income for the year ended March 31, 2007.

	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
		(Millions of yen)	
Prepaid pension cost	**¥ 10,974**	**¥ (6,199)**	**¥ 4,775**
Accrued liabilities	**—**	**(2,552)**	**(2,552)**
Accrued pension and severance costs	**(62,837)**	**(21,673)**	**(84,510)**
Other intangible assets, net	**1,638**	**(1,638)**	**—**
Deferred income taxes	**23,046**	**11,706**	**34,752**
Minority interests in subsidiaries	**6,955**	**628**	**7,583**
Accumulated other comprehensive loss	**25,807**	**18,887**	**44,694**

	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
		(Thousands of U.S. dollars)	
Prepaid pension cost	**$ 93,000**	**$ (52,534)**	**$ 40,466**
Accrued liabilities	**—**	**(21,627)**	**(21,627)**
Accrued pension and severance costs	**(532,517)**	**(183,669)**	**(716,186)**
Other intangible assets, net	**13,881**	**(13,881)**	**—**
Deferred income taxes	**195,305**	**99,203**	**294,508**
Minority interests in subsidiaries	**58,941**	**5,322**	**64,263**
Accumulated other comprehensive loss	**218,703**	**160,059**	**378,762**

Components of Net Periodic Benefit Cost

Components of net periodic benefit cost for the defined benefit plans for the years ended March 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005	**2007**
		(Millions of yen)		(Thousands of U.S. dollars)
Components of net periodic benefit cost:				
Service cost	**¥ 25,206**	¥ 25,025	¥ 24,899	**$ 213,610**
Interest cost	**14,207**	12,827	13,670	**120,398**
Expected return on plan assets	**(16,741)**	(13,626)	(12,488)	**(141,873)**
Recognized net actuarial loss	**5,151**	8,339	7,407	**43,653**
Amortization of prior service credit	**(1,719)**	(2,271)	(1,380)	**(14,568)**
Amortization of net transition obligation	**172**	545	150	**1,458**
Derecognition of previously accrued salary progression	**—**	—	(29,014)	**—**
Settlement and curtailment loss	**5,146**	—	76,401	**43,610**
Net periodic benefit cost	**¥ 31,422**	¥ 30,839	¥ 79,645	**$ 266,288**

As of March 31, 2007, the estimated net actuarial loss, prior service credit and net transition obligation for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Net actuarial loss	**¥ 3,903**	**$ 33,076**
Prior service credit	**(1,853)**	**(15,703)**
Net transition obligation	**285**	**2,415**

Obligations and Fund Status

Reconciliation of the beginning and ending balances of the benefit obligation and the fair value of the plan assets, the funded status and the amounts recognized in the consolidated balance sheets of the non-contributory and contributory defined benefit pension plans at March 31, 2007 and 2006 are outlined as follows:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Changes in benefit obligation:			
Benefit obligation at beginning of year	**¥621,973**	¥ 590,230	**$5,270,958**
Service cost	**25,206**	25,025	**213,610**
Interest cost	**14,207**	12,827	**120,398**
Plan participants' contributions	**568**	651	**4,813**
Plan amendments	**(2,788)**	436	**(23,627)**
Actuarial loss	**371**	2,106	**3,144**
Acquisitions	**9,743**	17,241	**82,568**
Benefits paid	**(30,963)**	(28,446)	**(262,398)**
Settlements and curtailments	**(10,506)**	—	**(89,034)**
Foreign currency translation	**4,651**	1,903	**39,415**
Benefit obligation at end of year	**632,462**	621,973	**5,359,847**
Changes in plan assets:			
Fair value of plan assets at beginning of year	**505,622**	410,754	**4,284,932**
Actual return on plan assets	**23,540**	53,829	**199,492**
Acquisitions	**6,117**	12,776	**51,839**
Employers' contributions	**45,818**	49,701	**388,288**
Plan participants' contributions	**568**	651	**4,813**
Benefits paid	**(26,783)**	(25,147)	**(226,974)**
Settlement	**(10,405)**	—	**(88,178)**
Foreign currency translation	**5,698**	3,058	**48,288**
Fair value of plan assets at end of year	**550,175**	505,622	**4,662,500**
Funded status	**¥ (82,287)**	(116,351)	**$ (697,347)**
Unrecognized net actuarial loss		124,762	
Unrecognized prior service credit		(20,068)	
Unrecognized net transition obligation		749	
Net amount recognized		¥ (10,908)	
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension cost	**¥ 4,775**	¥ 6,486	**$ 40,466**
Accrued liabilities	**(2,552)**	—	**(21,627)**
Accrued pension and severance costs	**(84,510)**	(44,215)	**(716,186)**
Additional minimum liability adjustments:			
Intangible assets	**—**	1,367	**—**
Accumulated other comprehensive loss	**—**	25,454	**—**
Net amount recognized	**¥ (82,287)**	¥ (10,908)	**$ (697,347)**
Amounts recognized in accumulated other comprehensive loss consist of:			
Net actuarial loss	**¥108,549**	—	**$ 919,907**
Prior service credit	**(21,234)**	—	**(179,949)**
Net transition obligation	**576**	—	**4,881**
	¥ 87,891	—	**$ 744,839**

The accumulated benefit obligation for defined benefit pension plans amounted to ¥596,010 million ($5,050,932 thousand) and ¥541,598 million at March 31, 2007 and 2006, respectively.

The aggregate projected benefit obligation and aggregate fair value of plan assets for the pension plans where projected benefit obligations exceeded plan assets, and the aggregate accumulated benefit obligation and aggregate fair value of plan assets where accumulated benefit obligations exceeded plan assets as of March 31, 2007 and 2006 were as follows:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Plans with projected benefit obligation in excess of plan assets:			
Projected benefit obligation	**¥611,726**	¥596,176	**$5,184,119**
Fair value of plan assets	**524,776**	478,213	**4,447,254**
Plans with accumulated benefit obligation in excess of plan assets:			
Accumulated benefit obligation	**379,421**	507,906	**3,215,432**
Fair value of plan assets	**320,015**	466,364	**2,711,992**

Assumptions

The weighted-average assumptions used to determine benefit obligations at March 31, 2007 and 2006 are as follows: Rate of compensation increases was calculated excluding pension plans whose compensation levels did not impact the amount of benefit obligations.

	2007	2006
Discount rate	**2.30%**	2.29%
Rate of compensation increases	**2.30%**	2.13%

The weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Discount rate	**2.29%**	2.21%	2.14%
Rate of compensation increases	**2.13%**	2.09%	2.06%
Expected long-term rate of return on plan assets	**3.25%**	3.21%	3.15%

The expected long-term rate of return on plan assets is based on the long-term expected return of the plans' asset allocations and an evaluation of the historical behavior of the Company's portfolio.

Plan Assets

The Company's actual weighted-average assets allocations for defined benefit pension plans at March 31, 2007 and 2006, by asset category are as follows:

Asset Category	2007	2006
Equity securities	**44%**	43%
Debt securities	**36**	35
General accounts of life insurance companies	**15**	16
Other	**5**	6
Total	**100%**	100%

Target allocations of plan assets for equity securities, debt securities and general accounts of life insurance companies are 43%, 40% and 15%, respectively.

The Company's investment policy for defined benefit plans is designated to provide the plans with sufficient assets to meet future benefit payment requirements. The Company monitors asset allocation periodically and adjusts asset allocation, if necessary in order to meet the target asset allocation. The Company's investment policy pursues diversified investments and prohibits speculative investments.

Contribution

The Company expects to contribute approximately ¥45,517 million ($385,737 thousand) to the defined benefit pension plan for the year ending March 31, 2008.

Estimated Future Benefit Payments

The expected benefit payments, which reflect estimated future service, are summarized as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Year ending March 31;		
2008	¥ 20,226	$ 171,407
2009	20,996	177,932
2010	22,276	188,780
2011	23,377	198,110
2012	25,704	217,831
2013 through 2017	141,569	1,199,737

11. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2007, 2006 and 2005.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2007, 2006 and 2005 differ from the statutory tax rate due to the following reasons:

	2007	2006	2005
Statutory tax rates	**40.6%**	40.6%	40.6%
Increase (decrease) in income taxes resulting from:			
Expenses not deductible for tax purposes	**4.6**	4.3	2.2
Goodwill impairment	**—**	5.0	—
Lower effective tax rates of other countries	**(4.4)**	(4.1)	(2.8)
Deferred tax liabilities on undistributed earnings	**2.3**	(0.4)	(0.1)
R&D credits	**(5.2)**	(3.7)	(2.8)
Foreign tax credit	**(0.2)**	(1.7)	(0.7)
Net changes in valuation allowances	**17.9**	4.5	2.5
Other	**2.1**	(0.5)	0.5
Effective tax rates	**57.7%**	44.0%	39.4%

Income before income taxes for the years ended March 31, 2007, 2006 and 2005 was taxed in the following jurisdictions:

	2007	2006	2005	**2007**
	(Millions of yen)			(Thousands of U.S. dollars)
Income before income taxes:				
Domestic	**¥ 92,845**	¥69,821	¥138,206	**$786,822**
Foreign	**10,419**	9,794	24,140	**88,297**
	¥103,264	¥79,615	¥162,346	**$875,119**

The provision (benefit) for income taxes for the years ended March 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005	2007
	(Millions of yen)			(Thousands of U.S. dollars)
Current:				
Domestic	**¥42,769**	¥ 42,611	¥44,119	**$362,450**
Foreign	**20,141**	10,145	10,964	**170,687**
Total current	**62,910**	52,756	55,083	**533,137**
Deferred:				
Domestic	**3,922**	(10,344)	11,723	**33,237**
Foreign	**(7,299)**	(7,388)	(2,917)	**(61,856)**
Total deferred	**(3,377)**	(17,732)	8,806	**(28,619)**
	¥59,533	¥ 35,024	¥63,889	**$504,518**

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Inventories	**¥ 41,456**	¥ 39,500	**$ 351,322**
Depreciation	**36,943**	28,908	**313,076**
Accrued expenses	**46,444**	46,532	**393,593**
Accrued pension and severance costs	**7,295**	13,570	**61,822**
Minimum pension liability adjustments	**—**	10,129	**—**
Pension liability adjustments	**34,752**	—	**294,508**
Accrued enterprise tax	**2,891**	2,565	**24,500**
Tax loss carryforwards	**27,367**	22,179	**231,924**
Valuation of investment securities	**13,413**	2,589	**113,669**
Allowance for doubtful receivables	**5,065**	5,599	**42,924**
Other	**38,630**	30,668	**327,373**
	254,256	202,239	**2,154,711**
Less valuation allowance	**(38,875)**	(22,989)	**(329,449)**
Total deferred tax assets	**215,381**	179,250	**1,825,262**
Deferred tax liabilities:			
Depreciation	**3,886**	8,645	**32,932**
Lease accounting	**5,641**	4,790	**47,805**
Taxes on undistributed earnings	**13,848**	10,272	**117,356**
Valuation of available-for-sale securities	**33,212**	38,049	**281,458**
Goodwill	**14,253**	13,610	**120,788**
Accrued pension and severance costs	**13,978**	12,092	**118,458**
Other intangible assets	**15,429**	10,776	**130,754**
Other	**15,282**	12,413	**129,508**
Total deferred tax liabilities	**115,529**	110,647	**979,059**
Net deferred tax assets	**¥ 99,852**	¥ 68,603	**$ 846,203**

The valuation allowance relates primarily to the deferred tax assets of certain subsidiaries which have net operating loss carryforwards for tax purposes. The valuation allowances increased by ¥15,886 million ($134,627 thousand), ¥4,517 million and ¥3,981 million for the years ended March 31, 2007, 2006 and 2005, respectively.